

**THE INNOVATION AND ENTREPRENEURSHIP  
INVESTMENT AUTHORITY  
INCLUDING ITS BLENDED COMPONENT UNIT  
CENTER FOR INNOVATIVE TECHNOLOGY  
Herndon, Virginia**

**ANNUAL FINANCIAL STATEMENTS  
FOR THE YEAR ENDED  
JUNE 30, 2010**



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MANAGEMENT'S DISCUSSION AND ANALYSIS  
(Unaudited)

The management of the Innovation and Entrepreneurship Investment Authority (Authority), offers readers of the Authority's financial statements this narrative overview and analysis of its financial activities for the fiscal year ended June 30, 2010. We encourage readers to consider the information presented here in conjunction with the financial statements and accompanying notes.

During the Virginia Acts of Assembly – 2009 Reconvened Session, the Code of Virginia was changed to rename the Innovative Technology Authority to the Innovation and Entrepreneurship Investment Authority, effective July 1, 2009. The new legislation gives the Authority additional responsibilities, and changes the appointment process and structure of the Board of Directors. The Innovation and Entrepreneurship Investment Authority is the successor in interest to the Innovation Technology Authority. Without limitation, title and interest in and to any real or tangible personal property vested in the Innovative Technology Authority is transferred to and taken as standing in the name of the Innovation and Entrepreneurship Investment Authority.

The Authority is a political subdivision of the Commonwealth of Virginia (Commonwealth). Its mission is to accelerate the next generation of technology and technology companies to make Virginia an attractive business location. The Center for Innovative Technology (CIT) is a non-stock, not-for-profit corporation, which acts as the operating arm of the Authority and is a blended component unit of the Authority. Transactions are accounted for in enterprise funds and reports have been prepared on the accrual basis of accounting.

The Statement of Net Assets presents information on all of the Authority and CIT's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority and CIT is improving or deteriorating.

The Statement of Revenues, Expenses and Changes in Net Assets presents information showing how the Authority and CIT's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flow. Thus, revenues and expenses are reported in this statement for some items that are related to cash flows in prior or future fiscal periods.

Financial Analysis

Net Assets as of June 30, 2010  
(With comparative figures for June 30, 2009)

	<u>2010</u>	<u>2009</u>	<u>Change</u>
Assets:			
Current assets	\$5,746,232	\$5,207,013	\$539,219
Noncurrent assets	34,364	380,171	(345,807)
Capital assets	<u>22,062,233</u>	<u>22,987,891</u>	<u>(925,658)</u>
Total assets	<u>27,842,829</u>	<u>28,575,075</u>	<u>(732,246)</u>

	<u>2010</u>	<u>2009</u>	<u>Change</u>
Liabilities:			
Current liabilities	2,030,145	2,293,055	(262,910)
Long term liabilities	<u>3,471,157</u>	<u>4,488,088</u>	<u>(1,016,931)</u>
Total liabilities	<u>5,501,302</u>	<u>6,781,143</u>	<u>(1,279,841)</u>
Net assets:			
Investment in capital assets, net of related debt	17,608,508	17,606,061	2,447
Unrestricted net assets	4,063,019	3,487,871	575,148
Restricted net assets, expendable	<u>670,000</u>	<u>700,000</u>	<u>(30,000)</u>
Total net assets	<u>\$22,341,527</u>	<u>\$21,793,932</u>	<u>\$547,595</u>

The current assets increased by \$539,219 due to increases in cash and accounts receivable related primarily to new business.

The Commonwealth leases facilities from the Authority, in the midrise portion of the landmark building in Herndon, Virginia, where CIT's offices are located. The lease calls for the Commonwealth to pay rent equal to the bond payments, insurance, trustee fees, and maintenance costs of the midrise portion of the building. In turn, the Commonwealth subleases the leased space to other tenants. The Commonwealth has assigned the Authority as the managing agent to collect rents from the sublease tenants. The Authority uses the rents received to cover the maintenance costs of the midrise portion of the building. Any excess or deficit of rental income over or under the maintenance costs is due to or from the Commonwealth. The noncurrent assets decrease of \$345,807 is related to a rent abatement given to one of the midrise building tenants in fiscal year 2009, which was fully amortized in fiscal year 2010 when the tenant defaulted on the lease. The rent abatement occurred when the lease was renegotiated to compensate the tenant for a tenant allowance in the form of a rent abatement instead of tenant improvements, as previously stated in the lease.

The amortization of the rent abatement and reduction in rental income in the midrise portion of the building in fiscal 2010 resulted in a \$436,068 decrease in the amount due to the Commonwealth. The \$262,910 decrease in current liabilities consists primarily of the decrease in the amount due to the Commonwealth, offset by an \$80,000 increase in the current portion of the outstanding bonds payable and a \$95,889 increase in CIT accounts payable and accrued expenses.

The decrease in long-term liabilities of \$1,016,931 reflects a principal payment of \$935,000 and an \$80,000 increase in the current portion of the outstanding bonds payable, and a \$1,931 decrease in capital lease obligations.

The restricted net assets represent the Growth Acceleration Program (GAP) BioLife Fund, a seed stage venture fund, started in fiscal year 2007, and funded equally by Johnson & Johnson Services, Inc. and CIT. The June 30, 2010 balance of \$670,000 reflects activity in the fund from inception through fiscal 2010 of \$1,200,000 in total funding and \$530,000 in investments made to support emerging life science companies in Virginia.



Revenues, Expenses, and Changes in Net Assets for the Fiscal Year Ended June 30, 2010  
(With comparative figures for June 30, 2009)

	<u>2010</u>	<u>2009</u>	<u>Change</u>
Operating revenues:			
Rental income	\$ 2,805,592	\$ 2,973,127	\$ (167,535)
Contracts and grants revenue	2,932,176	845,203	2,086,973
GAP Revenue	207,315	50,000	157,315
Donations	107,947	582,153	(474,206)
Miscellaneous revenue	<u>144,215</u>	<u>127,673</u>	<u>16,542</u>
Total operating revenues	<u>6,197,245</u>	<u>4,578,156</u>	<u>1,619,089</u>
Operating expenses:			
Program direct expenses	3,338,612	2,604,643	733,969
Indirect expenses	3,132,336	3,150,182	(17,846)
Communications and marketing	170,006	190,294	(20,288)
Business development	260,711	322,779	(62,068)
Advocacy	227,537	307,285	(79,748)
Other unallowable expenses	-	31,654	(31,654)
Building and IEIA administrative expenses	1,354,981	1,484,353	(129,372)
Depreciation and amortization	<u>952,216</u>	<u>942,059</u>	<u>10,157</u>
Total operating expenses	<u>9,436,399</u>	<u>9,033,249</u>	<u>403,150</u>
Non-operating revenues/(expenses):			
Appropriations from the Commonwealth of Virginia	4,062,836	5,308,802	(1,245,966)
Interest income	41,895	85,832	(43,937)
Interest expense	(396,200)	(459,775)	63,575
Gain on investment	78,870	-	78,870
Loss on disposal of capital assets	<u>(652)</u>	<u>-</u>	<u>(652)</u>
Total non-operating revenues/(expenses)	<u>3,786,749</u>	<u>4,934,859</u>	<u>(1,148,110)</u>
Change in net assets	547,595	479,766	67,829
Net assets at July 1, beginning fiscal year	<u>21,793,932</u>	<u>21,314,166</u>	<u>479,766</u>
Net assets at June 30, ending fiscal year	<u>\$22,341,527</u>	<u>\$21,793,932</u>	<u>\$547,595</u>

Operating Revenues

Contracts and grants revenue increased by \$2,086,973 because of several new projects with the federal government. Some of the new work was with the Army for projects involving environmental bioterrorism detection, mobile learning, and Web 2.0, and with VHQC, Inc. on a project involving the implementation of electronic medical health records.

Donations revenue decreased by \$474,206 in fiscal year 2010. The Innovative Technology Foundation donations decreased by \$274,106 and Johnson & Johnson Services, Inc. donations for the GAP BioLife Fund decreased by \$200,000.

#### Operating Expenses

Program direct expenses increased by \$733,969 during fiscal year 2010 due to costs associated with the new contracts and grants with the federal government and increased Innovation Center project costs, offset by fewer investments made under GAP. Fewer investments in GAP were made due to cuts in the Commonwealth's appropriation to the Authority.

#### Non-operating revenues

The Authority's fiscal year 2010 appropriation was \$1,245,966 lower than last year's appropriation because the appropriation was reduced by the General Assembly.

#### Capital Assets and Debt Administration

##### Capital Assets as of June 30, 2010 (With comparative figures for June 30, 2009)

	<u>2010</u>	<u>2009</u>	<u>Change</u>
Land and land improvements	\$ 7,944,997	\$ 7,944,997	\$ -
Building and improvements (net of depreciation)	14,103,554	15,021,311	(917,757)
Furniture, fixtures and equipment (net of depreciation)	<u>13,682</u>	<u>21,583</u>	<u>(7,901)</u>
Total capital assets	<u>\$22,062,233</u>	<u>\$22,987,891</u>	<u>\$(925,658)</u>

The capital assets decreased by \$925,658 due to depreciation of \$943,251 and a \$652 loss on disposal, offset by \$18,245 of capital asset purchases.

#### Debt Administration

At year-end, the Authority had \$4,480,000 of taxable lease revenue bonds outstanding. In 1989, bonds were issued originally for \$13,300,000 to finance the construction of the midrise portion of the Authority building located in Herndon, Virginia. On May 1, 1997, Series 1997 Bonds were issued by the Authority to advance refund \$11,200,000 of the outstanding 1989 Series. More information about the outstanding principal and interest cost requirements of these bonds is detailed in Note I in the Notes to the Financial Statements.

Significant variations between budget and actual results

<b>Programs</b>	<b>Budgeted Cost</b>	<b>Actual Cost</b>	<b>Variance</b>
Research and Development	\$3,199,472	\$1,838,820	\$1,360,652
Entrepreneur	\$2,761,872	\$1,751,838	\$1,010,034
Connect	\$1,944,096	\$1,064,190	\$879,906
Innovation Center	\$225,400	\$603,719	\$(378,319)

Under the Research and Development program, costs incurred were less than budgeted due to delays in obtaining a contract with the federal government. The contract, which was anticipated in July 2009, was received in September 2010.

Under the Entrepreneur program, the appropriation reductions resulted in fewer investments in high potential emerging technology companies through GAP.

Under the Connect program, costs were lower than budgeted because CIT postponed working on a federal contract while waiting for funding by the federal government.

Under the Innovation Center project, CIT incurred costs for the Area Plans Review (APR) process, which is required to increase the buildable area on the land. CIT incurred higher costs than anticipated in the budget due to an extensive community involvement step. The APR application has been approved, which is the first step in achieving the Innovation Center project.

## **FINANCIAL STATEMENTS**

INNOVATION AND ENTREPRENEURSHIP INVESTMENT AUTHORITY AND  
 CENTER FOR INNOVATIVE TECHNOLOGY  
 STATEMENT OF NET ASSETS  
 As of June 30, 2010

ASSETS	
Current assets:	
Cash and cash equivalents (Note B)	\$ 5,077,120
Prepaid expenses	78,837
Accounts and accrued receivables (Note C)	727,792
Less: allowance for doubtful accounts	(137,517)
Notes receivable (Note D)	1,585,155
Less: allowance for doubtful accounts (Note D)	<u>(1,585,155)</u>
Total current assets	<u>5,746,232</u>
Noncurrent assets:	
Unamortized expense of bond issue	<u>34,364</u>
Total noncurrent assets	<u>34,364</u>
Capital assets (Note E):	
Land and land improvements	7,944,997
Building and improvements	27,203,227
Less: accumulated depreciation	(13,099,673)
Furniture, fixtures and equipment	906,389
Less: accumulated depreciation	<u>(892,707)</u>
Total capital assets	<u>22,062,233</u>
Total assets	<u>27,842,829</u>
LIABILITIES	
Current liabilities:	
Accrued interest payable	56,149
Compensated absences (Note G)	118,772
Accounts payable, accrued expenses and prepaid rental income	403,396
Due to Commonwealth of Virginia	390,286
Capital lease obligations - short term (Note H)	1,931
Bonds payable - short term (Note I)	1,015,000
Security deposits	<u>44,611</u>
Total current liabilities	<u>2,030,145</u>
Long term liabilities:	
Capital lease obligations (Note H)	6,157
Bonds payable (Note I)	<u>3,465,000</u>
Total long term liabilities	<u>3,471,157</u>
Total liabilities	<u>5,501,302</u>

INNOVATION AND ENTREPRENEURSHIP INVESTMENT AUTHORITY AND  
CENTER FOR INNOVATIVE TECHNOLOGY  
STATEMENT OF NET ASSETS  
As of June 30, 2010

NET ASSETS	
Investment in capital assets, net of related debt	17,608,508
Unrestricted net assets	4,063,019
Restricted net assets, expendable	<u>670,000</u>
Total net assets	<u>\$ 22,341,527</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

INNOVATION AND ENTREPRENEURSHIP INVESTMENT AUTHORITY AND  
 CENTER FOR INNOVATIVE TECHNOLOGY  
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
 For the Fiscal Year Ended June 30, 2010

	Direct Expenses	Indirect Expenses	Total
Operating revenues:			
Rental income - lease revenue			\$ 1,461,769
Rental income - bonds			1,343,823
Contracts and grants revenue			2,932,176
GAP revenue			207,315
Donations revenue			107,947
Miscellaneous revenue			144,215
Total operating revenues			6,197,245
Operating expenses:			
Program expenses:			
Research and development	\$ 1,412,499	\$ 426,321	1,838,820
Entrepreneur	906,604	845,234	1,751,838
Connect	364,610	699,580	1,064,190
Broadband	179,927	210,484	390,411
Commonwealth support	8,492	17,470	25,962
Innovation Center	466,480	137,239	603,719
Total program expenses	3,338,612	2,336,328	5,674,940
Other expenses:			
Communications and marketing	170,006	129,148	299,154
Business development	260,711	472,367	733,078
Advocacy	227,537	194,193	421,730
Indirects unapplied to projects	-	300	300
Administrative	-	824	824
Building expense	1,354,157	-	1,354,157
Depreciation and amortization	-	952,216	952,216
Total other expenses	2,012,411	1,749,048	3,761,459
Total operating expenses	5,351,023	4,085,376	9,436,399
Operating loss			(3,239,154)
Non-operating revenues/(expenses):			
Appropriations from the Commonwealth of Virginia			4,062,836
Interest income			41,895
Interest expense - bonds			(395,489)
Interest expense - capital lease			(711)
Gain on Investment			78,870
Loss on disposal of capital assets			(652)
Total non-operating revenues/(expenses)			3,786,749
Change in net assets			547,595
Net assets at July 1, 2009			21,793,932
Net assets at June 30, 2010			\$22,341,527

The accompanying Notes to Financial Statements are an integral part of this statement.



INNOVATION AND ENTREPRENEURSHIP INVESTMENT AUTHORITY AND  
 CENTER FOR INNOVATIVE TECHNOLOGY  
 STATEMENT OF CASH FLOWS  
 For the Fiscal Year Ended June 30, 2010

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Cash flows from operating activities:	
Rental income received	\$ 3,109,638
Security deposits received	21,730
Contracts and grants income received	2,527,643
Growth Acceleration Program income received	179,827
Donations received	237,377
Miscellaneous income received	112,147
Payments to Growth Acceleration Program recipients	(260,733)
Payments to vendors	(5,615,364)
Payments to employees	<u>(2,865,076)</u>
Net cash used by operating activities	<u>(2,552,811)</u>
Cash flows from non-capital financing activities:	
Appropriations received from the Commonwealth of Virginia	<u>4,020,376</u>
Net cash provided by non-capital financing activities	<u>4,020,376</u>
Cash flows from investing activities:	
Gain on investment	78,870
Interest received	<u>41,895</u>
Net cash provided by investing activities	<u>120,765</u>
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets - IEIA	(18,245)
Cash payments on capital lease	(2,070)
Cash payment to retire bond indenture	(935,000)
Payments for interest	<u>(408,050)</u>
Net cash used by capital and related financing activities	<u>(1,363,365)</u>
Net increase in cash and cash equivalents	224,965
Cash and cash equivalents at July 1, 2009	<u>4,852,155</u>
Cash and cash equivalents at June 30, 2010	<u>\$ 5,077,120</u>

INNOVATION AND ENTREPRENEURSHIP INVESTMENT AUTHORITY AND  
CENTER FOR INNOVATIVE TECHNOLOGY  
STATEMENT OF CASH FLOWS  
For the Fiscal Year Ended June 30, 2010

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Reconciliation of operating loss to net cash used by operating activities:

Operating loss	\$(3,239,154)
Adjustments to reconcile operating loss to net cash:	
Depreciation and amortization	952,216
Changes in assets and liabilities:	
Increase in accounts and accrued receivables	(304,088)
Decrease in prepaid expenses	32,294
Decrease in unamortized rent abatement	336,842
Increase in accounts payable, accrued expenses and prepaid rental income	98,563
Decrease in deferred revenue	(705)
Increase in security deposits	14,689
Decrease in compensated absences	(7,400)
Decrease in due to Commonwealth of Virginia	<u>(436,068)</u>
Net cash used by operating activities	<u><u>\$(2,552,811)</u></u>

The accompanying Notes to Financial Statements are an integral part of this statement.

## **NOTES TO FINANCIAL STATEMENTS**

# INNOVATION AND ENTREPRENEURSHIP INVESTMENT AUTHORITY

## AND

### CENTER FOR INNOVATIVE TECHNOLOGY

#### NOTES TO FINANCIAL STATEMENTS

AS OF JUNE 30, 2010

#### NOTE A - SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation: The financial statements include the accounts of the Innovation and Entrepreneurship Investment Authority (Authority) and its blended component unit, the Center for Innovative Technology (CIT). The Authority is a political subdivision of the Commonwealth, as authorized by the Innovation and Entrepreneurship Investment Authority Act of 2009, as amended, Title 2.2, Chapter 22, Article 3 of the Code of Virginia. The Authority's mission is to accelerate the next generation of technology and technology companies to make Virginia an attractive business location. The Innovation and Entrepreneurship Investment Authority Act provides for the Authority to form a non-stock corporation to carry out the mission of the Authority. CIT is the non-stock, not-for-profit corporation created for this purpose, and acts as the operating arm of the Authority. The Virginia General Assembly 2009 Session, Virginia Acts of Assembly Chapter 781 authorizes the Authority to transfer funds appropriated to it by the Commonwealth to CIT for use in realizing its mission.

During the Virginia Acts of Assembly – 2009 Reconvened Session, the Code of Virginia was changed to rename the Innovative Technology Authority to the Innovation and Entrepreneurship Investment Authority, effective July 1, 2009. The new legislation gives the Authority additional responsibilities, and changes the appointment process and structure of the Board of Directors. The Innovation and Entrepreneurship Investment Authority is the successor in interest to the Innovation Technology Authority. Without limitation, title and interest in and to any real or tangible personal property vested in the Innovative Technology Authority is transferred to and taken as standing in the name of the Innovation and Entrepreneurship Investment Authority.

The financial statements of the Authority, including its blended component unit CIT, are intended to present the financial position and the changes in financial position and cash flows on only that portion of the financial reporting entity of the Commonwealth that is attributable to the transactions of the Authority including its blended component unit CIT. A separate report is prepared for the Commonwealth that includes all agencies, boards, commissions, and authorities over which the Commonwealth exercises oversight authority. The Authority is a component unit of the Commonwealth and is included in the basic financial statements of the Commonwealth. Separate financial statements for the Authority and CIT can be found in the Supplementary Information section of the Annual Financial Statement report.

Basis of Accounting: The financial statements of the Authority have been prepared on the economic resources measurement focus and the accrual basis of accounting; whereby, revenues are recognized when earned and expenses are recognized when a liability is incurred. The activities of the Authority are accounted for in an enterprise fund, used to account for governmental operations that are financed and operated in a manner similar to private business enterprises. Enterprise fund accounting is used when the governing body has decided that periodic determination of revenues earned, expenses incurred, and net income is appropriate.

Allocation Method: CIT uses the full-cost allocation approach to allocate indirect costs among functions. CIT allocates indirect costs based on three rates: fringe, overhead, and general and administrative. The fringe and overhead are applied to functions based upon direct labor cost and general and administrative is applied to functions based upon total cost.

Capital Assets: Property and equipment are stated at cost at date of acquisition or fair market value at date of donation in the case of gifts. Depreciation is recorded on the straight-line basis over estimated useful lives of the assets ranging from three to forty years. The Authority uses a \$3,000 cost value to determine the assets to capitalize.

Operating and Non-Operating Activity: Most of the financial activity of the Authority is related to operations. Operating activities are directly related to the Authority promoting the Commonwealth's economic growth through technology. Currently, non-operating activity relates to appropriations from the Commonwealth, investment activities such as interest income, and interest expense.

Income Taxes: The Authority is a political subdivision of the Commonwealth and therefore is exempt from federal income tax. CIT is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code.

#### NOTE B - CASH AND INVESTMENTS

The investment policy of the Authority and CIT is established and monitored by the Board of Directors. The investment policies of the Authority and CIT comply with the Investment of Public Funds Act, Code of Virginia Section 2.2-4500 - 4517. The investment policy establishes guidelines for the quality of investments, maturities, and investment yields.

Certain deposits and investments are maintained by the Authority and CIT or are represented by specific identifiable investment securities maintained by the Treasurer of Virginia, or are held by the Bank of New York Mellon or Bank of America. Cash and cash equivalents represent deposits and short-term investments with maturities of less than one year.

Deposits and investments held by the Bank of New York Mellon, as trustee, are accounted for in accordance with the provisions of the Master Indenture of Trust Agreement and the Supplemental Indenture of Trust Agreement between the Authority and the Trustee.

Custodial Credit Risk: All deposits of the Authority and CIT, with the exception of the Bank of New York Mellon account, are maintained in accounts covered by federal depository insurance and

collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400 et. seq. of the Code of Virginia, as amended, which provides for an assessable multiple financial institution collateral pool. The Bank of New York Mellon (Trust Department) account is a portfolio of U.S. Treasury and repurchase agreements that are collateralized by U.S. Treasury securities.

GASB 40 amends the requirements set out in GASB 3, by only requiring disclosure of uncollateralized deposits, and uninsured and unregistered securities held by a counterparty, or its trust department or agent but not in the government's name. The Authority and CIT had no investments exposed to custodial credit risk.

Concentration of Credit Risk: Disclosure of any one issuer is required when it represents five percent or more of total investments. At June 30, 2010, the Authority and CIT had no investments greater than five percent.

Foreign Currency Risk: Disclosure is required for investments exposed to changes in exchange rates that will adversely affect the fair value of an investment or a deposit. The Authority and CIT had no foreign investments or deposits for fiscal year 2010.

Credit Risk: Disclosure of the credit quality rating is required for investments exposed to the risk an issuer or other counterparty will not fulfill its obligations. At June 30, 2010, the Authority and CIT had investments and ratings as shown in the chart below.

	<u>Credit Rating</u>	<u>Fair Value</u>
Cash and cash equivalents:		
Cash		\$ 11,263
Federated Treasury Obligations Fund	AAAm	78
Local Government Investment Pool	AAAm	<u>5,065,779</u>
Total cash and cash equivalents		<u>\$5,077,120</u>

#### NOTE C - ACCOUNTS AND ACCRUED RECEIVABLES

The Authority held accounts receivable totaling \$22,462. CIT held accounts receivable totaling \$695,286 for contracts, grants, and miscellaneous receivables, and \$10,044 of accounts receivable related to the Innovative Technology Foundation (see Note L).

#### NOTE D - NOTES RECEIVABLE

During the last six fiscal years, CIT has entered into convertible note purchase agreements with 36 promising emerging companies under its Growth Acceleration Program (GAP). The promissory notes have maturity dates of 12 months to 20 months from issuance. Payment due at maturity is principal plus eight percent or ten percent. In some cases, CIT has granted extensions as the notes have become due. At CIT's option, CIT may convert the note into equity of the company, subject to the terms of the note.

At June 30, 2010, CIT had \$1,585,155 in notes receivable. Due to the risk involved with emerging companies, CIT has elected to set up an allowance of \$1,585,155.

#### NOTE E - CAPITAL ASSETS

The Authority had the following capital asset activities during fiscal year 2010:

	Beginning Balance	Acquisitions and Depreciation	Sales and Dispositions	Ending Balance
Land and land improvements	\$ 7,944,997	\$ -	\$ -	\$ 7,944,997
Building and improvements	27,353,428	18,245	(168,446)	27,203,227
Accumulated depreciation	(12,332,117)	(935,350)	167,794	(13,099,673)
Furniture, fixtures, and equipment	908,568	-	(2,179)	906,389
Accumulated depreciation	(886,985)	(7,901)	2,179	(892,707)
Total	<u>\$22,987,891</u>	<u>\$ (925,006)</u>	<u>\$ (652)</u>	<u>\$22,062,233</u>

#### NOTE F- CONTINGENT LIABILITIES

At June 30, 2010, CIT had a contingent liability related to a term sheet (letter of intent) for a Growth Acceleration Program investment of \$100,000. The term sheet states CIT's intention to enter into a convertible note purchase agreement with the company, subject to certain conditions. The letter of intent expires 90 days after issuance. The term sheet expired with no action subsequent to year end.

#### NOTE G - COMPENSATED ABSENCES

It is CIT's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since CIT does not have a policy to pay any amounts when employees separate from service. All vacation pay is accrued when incurred. Each employee may carry the equivalent of two weeks of annual leave forward to the following fiscal year.

#### NOTE H - CAPITAL LEASES

The Authority leases a copier that qualifies as a capital lease for accounting purposes and has been recorded at \$10,298, the present value of the future minimum lease payments as of the date of its inception. Through June 30, 2010, \$2,575 of accumulated depreciation has been taken.



Future minimum lease payments at June 30, 2010, are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2011	\$2,496
2012	2,496
2013	2,496
2014	<u>1,873</u>
Total minimum lease payments	9,361
Less: Amounts representing interest	<u>(1,273)</u>
Present value of future minimum	<u>\$8,088</u>

The following schedule presents the changes in capital lease obligations:

<u>Beginning</u>		<u>Ending</u>	<u>Amount Due</u>
<u>Balance</u>	<u>Decreases</u>	<u>Balance</u>	<u>Within One Year</u>
<u>\$10,158</u>	<u>\$2,070</u>	<u>\$8,088</u>	<u>\$1,931</u>

#### NOTE I - BONDS PAYABLE

The Authority issued \$12,455,000 of Taxable Lease Revenue Refunding Bonds on May 1, 1997, pursuant to a Master Indenture of Trust and First Supplemental Indenture of Trust between the Authority and Signet Trust Company, Richmond, Virginia, as trustee (since transferred to the Bank of New York Mellon). The Series 1997 Bonds were issued by the Authority to advance refund \$11,200,000 of outstanding 1989 Taxable Revenue Lease Bonds, Series 1989. The Commonwealth leases facilities from the Authority, in the midrise portion of the building. The lease calls for the Commonwealth to pay rent equal to the bond payments, insurance, trustee fees, and maintenance costs of the midrise portion of the building. In turn, the Commonwealth subleases the leased space to other tenants.

<u>Balance</u>		<u>Balance</u>	<u>Amount Due</u>
<u>July 1, 2009</u>	<u>Retirements</u>	<u>June 30, 2010</u>	<u>Within One Year</u>
<u>\$5,415,000</u>	<u>\$935,000</u>	<u>\$4,480,000</u>	<u>\$1,015,000</u>

The following amortization schedule illustrates the Authority's principal and interest requirements for the Series 1997 Bonds.

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
<u>June 30,</u>			
2011	\$1,015,000	\$336,896	\$1,351,896
2012	1,090,000	260,568	1,350,568
2013	1,155,000	178,600	1,333,600
2014	<u>1,220,000</u>	<u>91,744</u>	<u>1,311,744</u>
Total	<u>\$4,480,000</u>	<u>\$867,808</u>	<u>\$5,347,808</u>

## NOTE J - COMMITMENTS

CIT has entered into several operating lease agreements. The Authority does not have any operating leases as of June 30, 2010. Rental expense for CIT's operating leases for the year ended June 30, 2010 was \$17,996. As of June 30, 2010, CIT has the following minimum rental payments due under several equipment leases.

<u>Year Ending</u> <u>June 30,</u>	
2011	\$11,307
2012	11,307
2013	10,794
2014	<u>7,082</u>
Total	<u>\$40,490</u>

## NOTE K - EQUITY POSITIONS

CIT holds equity positions in fifteen start-up organizations obtained through CIT programs.

The first program is the CIT Intellectual Property program which is no longer in existence. Under this program, CIT licensed titles for technologies to start-up organizations in exchange for stock. CIT initially received the titles to these technologies from universities without cost to CIT. CIT obtained stock from several companies through this program; however, all but one of these companies (Hemodyne, Inc.) has gone out of business. This security is not traded on the open market and there is no cost basis to CIT. The equity position of this stock, therefore, has not been recorded on CIT assets since there is no clear assessment of the value at either cost or market.

The second program under which CIT has obtained equity positions in start-up companies is the Growth Acceleration Program (GAP). The equity was obtained by exercising conversion options in the GAP note purchase agreements and through additional cash purchases. As none of these companies are traded on the open market, it is difficult to determine a market value for these equity positions without full company valuations. Since there is no clear assessment of value, CIT has not recorded these equity positions as assets. CIT's equity portfolio, as of June 30, 2010, is detailed below.

<u>Company Name</u>	<u>Number of Shares</u> <u>or % ownership</u>	<u>Type of Equity</u>
Engineered Products of Virginia, LLC	6.41% ownership interest	ownership interest
Global Cell Solutions, Inc.	35,150 shares	Series A Preferred
Hemodyne, Inc.	35,003 shares	Common
Invincea, Inc.	53,850 shares	Series A Preferred
KZO Innovations, Inc.	81,953 shares	Series A Preferred

Mpowerplayer, Inc.	128,804 shares	Series A Preferred
OnDialog, Inc.	27,121 shares	Series A Preferred
Piedmont BioProducts, LLC	6% ownership interest	ownership interest
Rollstream, Inc.	738,322 shares	Series A Preferred
Senior-Living.com, Inc.	100,000 shares	Common
South49 Solutions, Inc.	250,000 shares	Series A Preferred
Soft Tissue Regeneration, Inc.	33,038 shares	Series A-1 Preferred
SquareLoop, Inc.	1,161,827 shares	Series A Preferred
Tau Therapeutics, LLC	482,986 shares	Series A Preferred
Visure Corp.	8,054 shares	Series A Preferred

#### NOTE L - RELATED PARTY TRANSACTIONS

The financial statements do not include the assets, liabilities, and net assets of the Innovative Technology Foundation (ITF). The ITF is a non-stock, non-profit corporation. It was created in 1986 to promote and support economic and industrial development, encourage technological innovation, coordinate research and development capabilities of public and private institutions, and otherwise aid in the accomplishment of the mission of CIT. The majority of the directors of the Board are independent of the Authority and CIT.

In fiscal year 2009, the Board of Directors of ITF authorized transfers of \$490,000 to support CIT programs. The funds were used to initiate the Entrepreneur-in-Residence program and to support the development of the Innovation Center land project. During fiscal year 2009, \$252,623 was transferred to CIT for these programs, and during fiscal year 2010 the remaining balance of \$237,377 was transferred. As of June 30, 2010, ITF owed CIT \$10,044 for legal and consulting fees paid on ITF's behalf. At June 30, 2010, ITF's unaudited net assets totaled \$194,270.

#### NOTE M - EMPLOYEE BENEFITS

CIT has a defined contribution retirement plan covering substantially all employees. Under the plan, CIT makes contributions fixed at a percentage of each employee's compensation to pay premiums for individual retirement annuity contracts written by the Teachers Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF). Pension expense for the plan totaled \$378,622 in 2010 for payroll of \$2,524,149.

#### NOTE N - RISK MANAGEMENT

The Authority and CIT are exposed to various risks of loss related to: torts, theft, or damage and destruction to assets, injuries to employees, and natural disasters. Risk management insurance includes general liability, property, directors and officers, and worker's compensation. The Authority is insured through the Commonwealth's Risk Management Program. CIT is insured through commercial insurance policies with Philadelphia Indemnity Insurance Company and Ohio Casualty Insurance Company. CIT's health care plan is administered by Anthem.

## **SUPPLEMENTARY INFORMATION**

INNOVATION AND ENTREPRENEURSHIP INVESTMENT AUTHORITY AND  
 CENTER FOR INNOVATIVE TECHNOLOGY  
 COMBINING STATEMENT OF NET ASSETS  
 As of June 30, 2010

	IEIA	CIT	Total
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 2,443,796	\$2,633,324	\$ 5,077,120
Prepaid expenses	-	78,837	78,837
Accounts and accrued receivables	22,462	705,330	727,792
Less: allowance for doubtful accounts	(19,569)	(117,948)	(137,517)
Notes receivable	-	1,585,155	1,585,155
Less: allowance for doubtful accounts	-	(1,585,155)	(1,585,155)
Total current assets	<u>2,446,689</u>	<u>3,299,543</u>	<u>5,746,232</u>
Noncurrent assets:			
Unamortized expense of bond issue	<u>34,364</u>	-	<u>34,364</u>
Total noncurrent assets	<u>34,364</u>	-	<u>34,364</u>
Capital assets:			
Land and land improvements	7,944,997	-	7,944,997
Building and improvements	27,203,227	-	27,203,227
Less: accumulated depreciation	(13,099,673)	-	(13,099,673)
Furniture, fixtures and equipment	906,389	-	906,389
Less: accumulated depreciation	(892,707)	-	(892,707)
Total capital assets	<u>22,062,233</u>	-	<u>22,062,233</u>
Total assets	<u>24,543,286</u>	<u>3,299,543</u>	<u>27,842,829</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accrued interest payable	56,149	-	56,149
Compensated absences	-	118,772	118,772
Accounts payable, accrued expenses and prepaid rental income	104,945	298,451	403,396
Due to Commonwealth of Virginia	390,286	-	390,286
Capital lease obligations - short term	1,931	-	1,931
Bonds payable - short term	1,015,000	-	1,015,000
Security deposits	<u>44,611</u>	-	<u>44,611</u>
Total current liabilities	<u>1,612,922</u>	<u>417,223</u>	<u>2,030,145</u>
Long-term liabilities:			
Capital lease obligations	6,157	-	6,157
Bonds payable	<u>3,465,000</u>	-	<u>3,465,000</u>
Total long term liabilities	<u>3,471,157</u>	-	<u>3,471,157</u>
Total liabilities	<u>5,084,079</u>	<u>417,223</u>	<u>5,501,302</u>

INNOVATION AND ENTREPRENEURSHIP INVESTMENT AUTHORITY AND  
 CENTER FOR INNOVATIVE TECHNOLOGY  
 COMBINING STATEMENT OF NET ASSETS  
 As of June 30, 2010

	IEIA	CIT	Total
NET ASSETS			
Investment in capital assets, net of related debt	17,608,508	-	17,608,508
Unrestricted net assets	1,850,699	2,212,320	4,063,019
Restricted net assets, expendable	-	670,000	670,000
Total net assets	<u>\$19,459,207</u>	<u>\$2,882,320</u>	<u>\$22,341,527</u>

INNOVATION AND ENTREPRENEURSHIP INVESTMENT AUTHORITY AND  
 CENTER FOR INNOVATIVE TECHNOLOGY  
 COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
 For the Fiscal Year Ended June 30, 2010

	IEIA	CIT	Total
Operating revenues:			
Rental income - lease revenue	\$ 1,461,769	\$ -	\$ 1,461,769
Rental income - bonds	1,343,823	-	1,343,823
Contracts and grants revenue	-	2,932,176	2,932,176
GAP revenue	-	207,315	207,315
Donations revenue	-	107,947	107,947
Miscellaneous revenue	-	144,215	144,215
Total operating revenues	2,805,592	3,391,653	6,197,245
Operating expenses:			
Program expenses:			
Research and development	-	1,838,820	1,838,820
Entrepreneur	-	1,751,838	1,751,838
Connect	-	1,064,190	1,064,190
Broadband	-	390,411	390,411
Commonwealth support	-	25,962	25,962
Innovation Center	-	603,719	603,719
Total program expenses	-	5,674,940	5,674,940
Other expenses:			
Communications and marketing	-	299,154	299,154
Business development	-	733,078	733,078
Advocacy	-	421,730	421,730
Indirects unapplied to projects	-	300	300
Administrative	824	-	824
Building expense	1,354,157	-	1,354,157
Depreciation and amortization	952,216	-	952,216
Total other expenses	2,307,197	1,454,262	3,761,459
Total operating expenses	2,307,197	7,129,202	9,436,399
Operating income/(loss)	498,395	(3,737,549)	(3,239,154)
Non-operating revenues/(expenses):			
Appropriations from the Commonwealth of Virginia	4,062,836	-	4,062,836
Interest income	440	41,455	41,895
Interest expense - bonds	(395,489)	-	(395,489)
Interest expense - capital lease	(711)	-	(711)
Gain on investment	-	78,870	78,870
Loss on disposal of capital assets	(652)	-	(652)
Total non-operating revenues/(expenses)	3,666,424	120,325	3,786,749
Income/(loss) before transfers	4,164,819	(3,617,224)	547,595



INNOVATION AND ENTREPRENEURSHIP INVESTMENT AUTHORITY AND  
 CENTER FOR INNOVATIVE TECHNOLOGY  
 COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
 For the Fiscal Year Ended June 30, 2010

	<u>IEIA</u>	<u>CIT</u>	<u>Total</u>
Transfers in/(out)	<u>(4,062,836)</u>	<u>4,062,836</u>	<u>-</u>
Change in net assets	<u>101,983</u>	<u>445,612</u>	<u>547,595</u>
Net assets at July 1, 2009	<u>19,357,224</u>	<u>2,436,708</u>	<u>21,793,932</u>
Net assets at June 30, 2010	<u>\$ 19,459,207</u>	<u>\$ 2,882,320</u>	<u>\$ 22,341,527</u>

INNOVATION AND ENTREPRENEURSHIP INVESTMENT AUTHORITY AND  
 CENTER FOR INNOVATIVE TECHNOLOGY  
 COMBINING STATEMENT OF CASH FLOWS  
 For the Fiscal Year Ended June 30, 2010

	IEIA	CIT	Total
Cash flows from operating activities:			
Rental income received	\$3,109,638	\$ -	\$ 3,109,638
Security deposits received	21,730	-	21,730
Contracts and grants income received	-	2,527,643	2,527,643
Growth Acceleration Program income received	-	179,827	179,827
Donations received	-	237,377	237,377
Miscellaneous income received	-	112,147	112,147
Payments to Growth Acceleration Program recipients	-	(260,733)	(260,733)
Payments to vendors	(1,767,941)	(3,847,423)	(5,615,364)
Intercompany receipts and (payments)	2,282,804	(2,282,804)	-
Payments to employees	-	(2,865,076)	(2,865,076)
Net cash provided/(used) by operating activities	3,646,231	(6,199,042)	(2,552,811)
Cash flows from non-capital financing activities:			
Appropriations received from the Commonwealth of Virginia	4,020,376	-	4,020,376
Operating transfers (out)/in	(4,020,376)	4,020,376	-
Net cash provided/(used) by non-capital financing activities	-	4,020,376	4,020,376
Cash flows from investing activities:			
Gain on investment	-	78,870	78,870
Interest received	440	41,455	41,895
Net cash provided/(used) by investing activities	440	120,325	120,765
Cash flows from capital and related financing activities:			
Acquisition and construction of capital assets - IEIA	(18,245)	-	(18,245)
Cash payments on capital lease	(2,070)	-	(2,070)
Cash payment to retire bond indenture	(935,000)	-	(935,000)
Payments for interest	(408,050)	-	(408,050)
Net cash provided/(used) by capital and related financing activities	(1,363,365)	-	(1,363,365)
Net increase/(decrease) in cash and cash equivalents	2,283,306	(2,058,341)	224,965
Cash and cash equivalents at July 1, 2009	160,490	4,691,665	4,852,155
Cash and cash equivalents at June 30, 2010	\$2,443,796	\$ 2,633,324	\$ 5,077,120

INNOVATION AND ENTREPRENEURSHIP INVESTMENT AUTHORITY AND  
 CENTER FOR INNOVATIVE TECHNOLOGY  
 COMBINING STATEMENT OF CASH FLOWS  
 For the Fiscal Year Ended June 30, 2010

	IEIA	CIT	Total
Reconciliation of operating income/(loss) to net cash provided/(used) by operating activities:			
Operating income/(loss)	\$ 498,395	\$ (3,737,549)	\$ (3,239,154)
Adjustments to reconcile operating income/(loss) to net cash:			
Depreciation and amortization	952,216	-	952,216
Changes in assets and liabilities:			
(Increase)/decrease in accounts and accrued receivables	17,784	(321,872)	(304,088)
Decrease in due from CIT and (decrease) in due to IEIA, respectively	2,267,804	(2,267,804)	-
(Increase)/decrease in prepaid expenses	-	32,294	32,294
(Increase)/decrease in unamortized rent abatement	336,842	-	336,842
Increase/(decrease) in accounts payable, accrued expenses and prepaid rental income	(5,431)	103,994	98,563
Increase/(decrease) in deferred revenue	-	(705)	(705)
Increase/(decrease) in security deposits	14,689	-	14,689
Increase/(decrease) in compensated absences	-	(7,400)	(7,400)
Increase/(decrease) in due to Commonwealth of Virginia	(436,068)	-	(436,068)
Net cash provided/(used) by operating activities	<u>\$ 3,646,231</u>	<u>\$ (6,199,042)</u>	<u>\$ (2,552,811)</u>

INNOVATION AND ENTREPRENEURSHIP INVESTMENT AUTHORITY AND  
 CENTER FOR INNOVATIVE TECHNOLOGY  
 SCHEDULE OF ANALYSIS OF FUND BALANCES  
 For the Fiscal Year Ended June 30, 2010

	IEIA	CIT	Total
Undesignated:			
Beginning balance	\$ 65,850	\$ 1,736,708	\$ 1,802,558
Change in net assets	101,983	445,612	547,595
Depreciation	943,251	-	943,251
Loss on asset disposals	652	-	652
Interest income designated to building	(436)	-	(436)
Transfer net profit from building operations to designated to building	(107,612)	-	(107,612)
Change in restricted - GAP BioLife Fund	-	30,000	30,000
Capital lease interest payments	843	-	843
Capital lease adjustment	208	-	208
Bond issuance expense	8,965	-	8,965
Bond payment	(935,000)	-	(935,000)
Bank fees on building reserve	824	-	824
Total undesignated	79,528	2,212,320	2,291,848
Restricted - GAP BioLife Fund:			
Beginning balance	-	700,000	700,000
Fiscal year 2010 expenses	-	(30,000)	(30,000)
Total restricted for GAP BioLife Fund	-	670,000	670,000
Investment in capital assets:			
Beginning balance	17,606,061	-	17,606,061
Purchases for building	18,245	-	18,245
Depreciation	(943,251)	-	(943,251)
Loss on asset disposals	(652)	-	(652)
Capital lease principal payments	2,070	-	2,070
Bond issuance expense	(8,965)	-	(8,965)
Bond payment	935,000	-	935,000
Total investment in capital assets	17,608,508	-	17,608,508
Designated to building:			
Beginning balance	1,685,313	-	1,685,313
Transfer net profit from building operations to designated to building	107,612	-	107,612
Interest income designated to building	436	-	436
Capital lease principal payments	(2,070)	-	(2,070)
Capital lease interest payments	(843)	-	(843)
Capital lease adjustment	(208)	-	(208)
Purchases for building	(18,245)	-	(18,245)
Bank fees on building reserve	(824)	-	(824)
Total designated to building	1,771,171	-	1,771,171
Total fund balance	\$ 19,459,207	\$ 2,882,320	\$ 22,341,527

## **APPENDIX A**

### **Independent Auditor's Report on Financial Statements**



# Commonwealth of Virginia

Walter J. Kucharski, Auditor

Auditor of Public Accounts  
P.O. Box 1295  
Richmond, Virginia 23218

October 22, 2010

The Honorable Robert F. McDonnell  
Governor of Virginia

The Honorable Charles J. Colgan  
Chairman, Joint Legislative Audit  
and Review Commission

Boards of Directors  
Innovation and Entrepreneurship Investment Authority and  
Center for Innovative Technology

## INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying Statement of Net Assets, Statement of Revenues, Expenses, and Changes in Net Assets, and Statement of Cash Flows of the business-type activities of the **Innovation and Entrepreneurship Investment Authority, a component unit of the Commonwealth of Virginia, and its blended component unit, the Center for Innovative Technology**, as of and for the year ended June 30, 2010 which collectively comprise the Authority's basic financial statements. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2010, and the changes in its financial position and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with Government Auditing Standards, we have also issued our report dated October 22, 2010, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

  
AUDITOR OF PUBLIC ACCOUNTS

AWP/clj



## **APPENDIX B**

### **AGENCY OFFICIALS**

INNOVATION AND ENTREPRENEURSHIP INVESTMENT AUTHORITY

AND

CENTER FOR INNOVATIVE TECHNOLOGY

BOARD OF DIRECTORS

As of June 30, 2010

Dan Bannister, Chairman

Ted Cahall	Rick Kapani
Jim Duffey	Suzanne H. King
Eric J. Hansen	Alan G. Merten
Wayne Hunter	Linwood H. Rose
Ray O. Johnson	Charles W. Steger
Hooks Johnston	Lydia W. Thomas

OFFICERS

Peter J. Jobse, President and Chief Executive Officer, CIT

Linwood H. Rose, Treasurer and Secretary, IEIA

Linda E. Gentry, Treasurer and Secretary, CIT